

Internal Revenue Service
P.O. Box 2508
Cincinnati, OH 45201

Department of the Treasury

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Employer Identification Number:

Contact person - ID number:

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LEGEND

X - city/state
Y - state
Z - city/state
B - township
C - township
D - agency
E - program
f - dollar amount

Dear

You asked for advance approval of your educational grant procedures under Internal Revenue Code section 4945(g)(3). This approval is required because you are a private foundation that is exempt from federal income tax.

Our determination

We approved your procedures for awarding educational grants. Based on the information you submitted, and assuming you will conduct your program as proposed, we determined that your procedures for awarding educational grants meet the requirements of Code section 4945(g)(3). As a result, expenditures you make under these procedures won't be taxable.

Description of your request

Your letter indicates that you will operate an educational grant program called E. The primary purpose of E is to provide opportunities for students in grade kindergarten through twelve to explore and expand their artistic experiences. You will grant up to half the cost of tuition/training/lesson fees that enhance students' appreciation for the arts. These art opportunities may include: music, theatre, dance, writing/poetry, fine arts, and visual arts. The organization receiving the scholarship on behalf of the student must be located in the state of Y and be exempt under IRC 501(c)(3).

In order to qualify for a scholarship, the student must be in grades kindergarten through twelve, have a legal residence in X, Z, B or C and attend one of the eight schools that are members of the D.

Applicants are considered on a first-come, first-serve basis as they are qualified and as funds are available. You operate on a calendar fiscal year and your board of trustees will determine annually the funding level for E at your January meeting. Funding level will be determined by your overall budget, the success and needs of the E. There will be no limit on the amount of an individual award, but the amount is limited to fifty-percent of the overall cost of the program selected by the applicant.

You will publicize the program through an open house in which all the teachers and administrators from the qualifying schools are invited and through brochures that will be delivered to every teacher in the qualifying schools.

The student will complete an online application which will then be reviewed by your staff for accuracy and qualification verification. Applications meeting the deadline, and all other identified requirements, will be reviewed by your selection committee. The selection committee will determine based on these applications which scholarships will be funded. Applications received after the current funding cycle will be included in the subsequent funding cycle and your selection committee will determine which scholarships will be funded. Students are limited to one scholarship per twelve month period.

Your selection committee is currently made up of two members of your board of trustees and you plan to add one or two additional members in the future who are unrelated to you. Qualifications for selection committee members include either being a member of your board of trustees or a community member that are interested in the E and are asked and approved by the current selection committee to be a member. All members of the selection committee are required to sign a conflict of interest statement prior to participating in the selection process.

E awards will be paid directly to the applicant's organization on behalf of the student once written documentation of matching funds from the organization is received by you. Written documentation is considered a receipt of balance paid or written communication from the organization that the balance of funds is identified. For scholarships over \$1000 dollars, the school will be required to send written verification of the students' attendance at the school and the students' home address.

If E is not used for the intended purposes, then the organization and/or scholarship recipient could lose their ability to receive E scholarships in the future. The organization would also be responsible for reimbursing you for the amount of the scholarship and the selection committee will decide any additional actions to be taken.

If the organization was found to be at fault by your selection committee for allowing a scholarship to be used for purposes other than the signed grant agreement letter, then collection procedures would commence. This would include contacting the organization requesting a refund of the funds. If the funds are not returned with ninety days of the formal letter, then the organization will no longer be eligible to receive E scholarships unless your selection committee rules otherwise.

You agree that you will maintain all records relating to individual grants, including information obtained to evaluate grantees, identify whether a grantee is a disqualified person, establish the amount and purpose of each grant, and establish that you undertook the supervision and investigation of grants.

Basis for our determination

The law imposes certain excise taxes on the taxable expenditures of private foundations (Code section 4945). A taxable expenditure is any amount a private foundation pays as a grant to an individual for travel, study, or other similar purposes. However, a grant that meets all of the following requirements of Code section 4945(g) is not a taxable expenditure.

- The foundation awards the grant on an objective and nondiscriminatory basis.
- The IRS approves in advance the procedure for awarding the grant.
- The grant is:
 - A scholarship or fellowship subject to section 117(a) and is to be used for study at an educational organization described in section 170(b)(1)(A)(ii); or
 - A prize or award subject to the provisions of section 74(b), if the recipient of the prize or award is selected from the general public; or
 - To achieve a specific objective; produce a report or similar product; or improve or enhance a literary, artistic, musical, scientific, teaching, or other similar skill or talent of the recipient.

To receive approval of its educational loan procedures, Treasury Regulations section 53.4945-4(c)(1) requires that a private foundation show:

- The grant procedure includes an objective and nondiscriminatory selection process.
- The grant procedure results in the recipients performing the activities the grants were intended to finance.
- The foundation plans to obtain reports to determine whether the recipients have performed the activities that the grants were intended to finance.

Other conditions that apply to this determination

- This determination covers only the grant program described above. This approval will apply to succeeding grant programs only if their standards and procedures don't differ significantly from those described in your original request.
- This determination applies only to you. It may not be cited as precedent.
- You cannot rely on the conclusions in this letter if the facts you provided have changed substantially. You must report any significant changes in your program to the Cincinnati Office of Exempt Organizations at:

Internal Revenue Service
Exempt Organizations Determinations
P.O. Box 2508
Cincinnati, OH 45201

- You cannot make grants to your creators, officers, directors, trustees, foundation managers, or members of selection committees or their relatives.
- All funds distributed to individuals must be made on a charitable basis and must further the purposes of your organization. You cannot award grants for a purpose that is inconsistent with Code section 170(c)(2)(B).
- You should keep adequate records and case histories so that you can substantiate your grant distributions with the IRS if necessary.

Please keep a copy of this letter in your records.

If you have any questions, please contact the person listed at the top of this letter.

Sincerely,

Holly O. Paz
Director, Exempt Organizations
Rulings and Agreements